

REFERENCE TITLE: sales tax exemption; energy-efficient appliances

State of Arizona
House of Representatives
Forty-eighth Legislature
Second Regular Session
2008

HB 2544

Introduced by
Representatives Sinema, Pancrazi: Ableser, Alvarez, Brown, Campbell CH,
Campbell CL, Farley, Gallardo, Lopez, Lujan, Meza, Miranda B, Prezelski,
Thrasher

AN ACT

AMENDING SECTIONS 42-5061 AND 42-5159, ARIZONA REVISED STATUTES; RELATING TO
TRANSACTION PRIVILEGE AND AFFILIATED EXCISE TAXES.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:
2 Section 1. Section 42-5061, Arizona Revised Statutes, is amended to
3 read:
4 42-5061. Retail classification; definitions
5 A. The retail classification is comprised of the business of selling
6 tangible personal property at retail. The tax base for the retail
7 classification is the gross proceeds of sales or gross income derived from
8 the business. The tax imposed on the retail classification does not apply to
9 the gross proceeds of sales or gross income from:
10 1. Professional or personal service occupations or businesses which
11 involve sales or transfers of tangible personal property only as
12 inconsequential elements.
13 2. Services rendered in addition to selling tangible personal property
14 at retail.
15 3. Sales of warranty or service contracts. The storage, use or
16 consumption of tangible personal property provided under the conditions of
17 such contracts is subject to tax under section 42-5156.
18 4. Sales of tangible personal property by any nonprofit organization
19 organized and operated exclusively for charitable purposes and recognized by
20 the United States internal revenue service under section 501(c)(3) of the
21 internal revenue code.
22 5. Sales to persons engaged in business classified under the
23 restaurant classification of articles used by human beings for food, drink or
24 condiment, whether simple, mixed or compounded.
25 6. Business activity which is properly included in any other business
26 classification which is taxable under article 1 of this chapter.
27 7. The sale of stocks and bonds.
28 8. Drugs and medical oxygen, including delivery hose, mask or tent,
29 regulator and tank, on the prescription of a member of the medical, dental or
30 veterinarian profession who is licensed by law to administer such substances.
31 9. Prosthetic appliances as defined in section 23-501 prescribed or
32 recommended by a health professional licensed pursuant to title 32, chapter
33 7, 8, 11, 13, 14, 15, 16, 17 or 29.
34 10. Insulin, insulin syringes and glucose test strips.
35 11. Prescription eyeglasses or contact lenses.
36 12. Hearing aids as defined in section 36-1901.
37 13. Durable medical equipment which has a centers for medicare and
38 medicaid services common procedure code, is designated reimbursable by
39 medicare, is prescribed by a person who is licensed under title 32, chapter
40 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is primarily and
41 customarily used to serve a medical purpose, is generally not useful to a
42 person in the absence of illness or injury and is appropriate for use in the
43 home.

1 14. Sales to nonresidents of this state for use outside this state if
2 the vendor ships or delivers the tangible personal property out of this
3 state.

4 15. Food, as provided in and subject to the conditions of article 3 of
5 this chapter and section 42-5074.

6 16. Items purchased with United States department of agriculture food
7 stamp coupons issued under the food stamp act of 1977 (P.L. 95-113; 91 Stat.
8 958) or food instruments issued under section 17 of the child nutrition act
9 (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; 42 United States Code
10 section 1786).

11 17. Textbooks by any bookstore that are required by any state
12 university or community college.

13 18. Food and drink to a person who is engaged in business which is
14 classified under the restaurant classification and which provides such food
15 and drink without monetary charge to its employees for their own consumption
16 on the premises during the employees' hours of employment.

17 19. Articles of food, drink or condiment and accessory tangible
18 personal property to a school district if such articles and accessory
19 tangible personal property are to be prepared and served to persons for
20 consumption on the premises of a public school within the district during
21 school hours.

22 20. Lottery tickets or shares pursuant to title 5, chapter 5,
23 article 1.

24 21. The sale of precious metal bullion and monetized bullion to the
25 ultimate consumer, but the sale of coins or other forms of money for
26 manufacture into jewelry or works of art is subject to the tax. For the
27 purposes of this paragraph:

28 (a) "Monetized bullion" means coins and other forms of money which are
29 manufactured from gold, silver or other metals and which have been or are
30 used as a medium of exchange in this or another state, the United States or a
31 foreign nation.

32 (b) "Precious metal bullion" means precious metal, including gold,
33 silver, platinum, rhodium and palladium, which has been smelted or refined so
34 that its value depends on its contents and not on its form.

35 22. Motor vehicle fuel and use fuel which are subject to a tax imposed
36 under title 28, chapter 16, article 1, sales of use fuel to a holder of a
37 valid single trip use fuel tax permit issued under section 28-5739, sales of
38 aviation fuel which are subject to the tax imposed under section 28-8344 and
39 sales of jet fuel which are subject to the tax imposed under article 8 of
40 this chapter.

41 23. Tangible personal property sold to a person engaged in the business
42 of leasing or renting such property under the personal property rental
43 classification if such property is to be leased or rented by such person.

1 24. Tangible personal property sold in interstate or foreign commerce
2 if prohibited from being so taxed by the Constitution of the United States or
3 the constitution of this state.

4 25. Tangible personal property sold to:

5 (a) A qualifying hospital as defined in section 42-5001.

6 (b) A qualifying health care organization as defined in section
7 42-5001 if the tangible personal property is used by the organization solely
8 to provide health and medical related educational and charitable services.

9 (c) A qualifying health care organization as defined in section
10 42-5001 if the organization is dedicated to providing educational,
11 therapeutic, rehabilitative and family medical education training for blind,
12 visually impaired and multihandicapped children from the time of birth to age
13 twenty-one.

14 (d) A qualifying community health center as defined in section
15 42-5001.

16 (e) A nonprofit charitable organization that has qualified under
17 section 501(c)(3) of the internal revenue code and that regularly serves
18 meals to the needy and indigent on a continuing basis at no cost.

19 (f) For taxable periods beginning from and after June 30, 2001, a
20 nonprofit charitable organization that has qualified under section 501(c)(3)
21 of the internal revenue code and that provides residential apartment housing
22 for low income persons over sixty-two years of age in a facility that
23 qualifies for a federal housing subsidy, if the tangible personal property is
24 used by the organization solely to provide residential apartment housing for
25 low income persons over sixty-two years of age in a facility that qualifies
26 for a federal housing subsidy.

27 26. Magazines or other periodicals or other publications by this state
28 to encourage tourist travel.

29 27. Tangible personal property sold to a person that is subject to tax
30 under this article by reason of being engaged in business classified under
31 the prime contracting classification under section 42-5075, or to a
32 subcontractor working under the control of a prime contractor that is subject
33 to tax under article 1 of this chapter, if the property so sold is any of the
34 following:

35 (a) Incorporated or fabricated by the person into any real property,
36 structure, project, development or improvement as part of the business.

37 (b) Used in environmental response or remediation activities under
38 section 42-5075, subsection B, paragraph 6.

39 (c) Incorporated or fabricated by the person into any lake facility
40 development in a commercial enhancement reuse district under conditions
41 prescribed for the deduction allowed by section 42-5075, subsection B,
42 paragraph 8.

43 28. The sale of a motor vehicle to:

44 (a) A nonresident of this state if the purchaser's state of residence
45 does not allow a corresponding use tax exemption to the tax imposed by

1 article 1 of this chapter and if the nonresident has secured a special ninety
2 day nonresident registration permit for the vehicle as prescribed by sections
3 28-2154 and 28-2154.01.

4 (b) An enrolled member of an Indian tribe who resides on the Indian
5 reservation established for that tribe.

6 29. Tangible personal property purchased in this state by a nonprofit
7 charitable organization that has qualified under section 501(c)(3) of the
8 United States internal revenue code and that engages in and uses such
9 property exclusively in programs for mentally or physically handicapped
10 persons if the programs are exclusively for training, job placement,
11 rehabilitation or testing.

12 30. Sales of tangible personal property by a nonprofit organization
13 that is exempt from taxation under section 501(c)(3), 501(c)(4) or 501(c)(6)
14 of the internal revenue code if the organization is associated with a major
15 league baseball team or a national touring professional golfing association
16 and no part of the organization's net earnings inures to the benefit of any
17 private shareholder or individual.

18 31. Sales of commodities, as defined by title 7 United States Code
19 section 2, that are consigned for resale in a warehouse in this state in or
20 from which the commodity is deliverable on a contract for future delivery
21 subject to the rules of a commodity market regulated by the United States
22 commodity futures trading commission.

23 32. Sales of tangible personal property by a nonprofit organization
24 that is exempt from taxation under section 501(c)(3), 501(c)(4), 501(c)(6),
25 501(c)(7) or 501(c)(8) of the internal revenue code if the organization
26 sponsors or operates a rodeo featuring primarily farm and ranch animals and
27 no part of the organization's net earnings inures to the benefit of any
28 private shareholder or individual.

29 33. Sales of seeds, seedlings, roots, bulbs, cuttings and other
30 propagative material to persons who use those items to commercially produce
31 agricultural, horticultural, viticultural or floricultural crops in this
32 state.

33 34. Machinery, equipment, technology or related supplies that are only
34 useful to assist a person who is physically disabled as defined in section
35 46-191, has a developmental disability as defined in section 36-551 or has a
36 head injury as defined in section 41-3201 to be more independent and
37 functional.

38 35. Sales of tangible personal property that is shipped or delivered
39 directly to a destination outside the United States for use in that foreign
40 country.

41 36. Sales of natural gas or liquefied petroleum gas used to propel a
42 motor vehicle.

43 37. Paper machine clothing, such as forming fabrics and dryer felts,
44 sold to a paper manufacturer and directly used or consumed in paper
45 manufacturing.

1 38. Coal, petroleum, coke, natural gas, virgin fuel oil and electricity
2 sold to a qualified environmental technology manufacturer, producer or
3 processor as defined in section 41-1514.02 and directly used or consumed in
4 the generation or provision of on-site power or energy solely for
5 environmental technology manufacturing, producing or processing or
6 environmental protection. This paragraph shall apply for fifteen full
7 consecutive calendar or fiscal years from the date the first paper
8 manufacturing machine is placed in service. In the case of an environmental
9 technology manufacturer, producer or processor who does not manufacture
10 paper, the time period shall begin with the date the first manufacturing,
11 processing or production equipment is placed in service.

12 39. Sales of liquid, solid or gaseous chemicals used in manufacturing,
13 processing, fabricating, mining, refining, metallurgical operations, research
14 and development and, beginning on January 1, 1999, printing, if using or
15 consuming the chemicals, alone or as part of an integrated system of
16 chemicals, involves direct contact with the materials from which the product
17 is produced for the purpose of causing or permitting a chemical or physical
18 change to occur in the materials as part of the production process. This
19 paragraph does not include chemicals that are used or consumed in activities
20 such as packaging, storage or transportation but does not affect any
21 deduction for such chemicals that is otherwise provided by this section. For
22 the purposes of this paragraph, "printing" means a commercial printing
23 operation and includes job printing, engraving, embossing, copying and
24 bookbinding.

25 40. Through December 31, 1994, personal property liquidation
26 transactions, conducted by a personal property liquidator. From and after
27 December 31, 1994, personal property liquidation transactions shall be
28 taxable under this section provided that nothing in this subsection shall be
29 construed to authorize the taxation of casual activities or transactions
30 under this chapter. For the purposes of this paragraph:

31 (a) "Personal property liquidation transaction" means a sale of
32 personal property made by a personal property liquidator acting solely on
33 behalf of the owner of the personal property sold at the dwelling of the
34 owner or upon the death of any owner, on behalf of the surviving spouse, if
35 any, any devisee or heir or the personal representative of the estate of the
36 deceased, if one has been appointed.

37 (b) "Personal property liquidator" means a person who is retained to
38 conduct a sale in a personal property liquidation transaction.

39 41. Sales of food, drink and condiment for consumption within the
40 premises of any prison, jail or other institution under the jurisdiction of
41 the state department of corrections, the department of public safety, the
42 department of juvenile corrections or a county sheriff.

43 42. A motor vehicle and any repair and replacement parts and tangible
44 personal property becoming a part of such motor vehicle sold to a motor

1 carrier who is subject to a fee prescribed in title 28, chapter 16, article 4
2 and who is engaged in the business of leasing or renting such property.

3 43. Livestock and poultry feed, salts, vitamins and other additives for
4 livestock or poultry consumption that are sold to persons who are engaged in
5 producing livestock, poultry, or livestock or poultry products or who are
6 engaged in feeding livestock or poultry commercially. For the purposes of
7 this paragraph, "poultry" includes ratites.

8 44. Sales of implants used as growth promotants and injectable
9 medicines, not already exempt under paragraph 8 of this subsection, for
10 livestock or poultry owned by or in possession of persons who are engaged in
11 producing livestock, poultry, or livestock or poultry products or who are
12 engaged in feeding livestock or poultry commercially. For the purposes of
13 this paragraph, "poultry" includes ratites.

14 45. Sales of motor vehicles at auction to nonresidents of this state
15 for use outside this state if the vehicles are shipped or delivered out of
16 this state, regardless of where title to the motor vehicles passes or its
17 free on board point.

18 46. Tangible personal property sold to a person engaged in business and
19 subject to tax under the transient lodging classification if the tangible
20 personal property is a personal hygiene item or articles used by human beings
21 for food, drink or condiment, except alcoholic beverages, which are furnished
22 without additional charge to and intended to be consumed by the transient
23 during the transient's occupancy.

24 47. Sales of alternative fuel, as defined in section 1-215, to a used
25 oil fuel burner who has received a permit to burn used oil or used oil fuel
26 under section 49-426 or 49-480.

27 48. Sales of materials that are purchased by or for publicly funded
28 libraries including school district libraries, charter school libraries,
29 community college libraries, state university libraries or federal, state,
30 county or municipal libraries for use by the public as follows:

31 (a) Printed or photographic materials, beginning August 7, 1985.

32 (b) Electronic or digital media materials, beginning July 17, 1994.

33 49. Tangible personal property sold to a commercial airline and
34 consisting of food, beverages and condiments and accessories used for serving
35 the food and beverages, if those items are to be provided without additional
36 charge to passengers for consumption in flight. For the purposes of this
37 paragraph, "commercial airline" means a person holding a federal certificate
38 of public convenience and necessity or foreign air carrier permit for air
39 transportation to transport persons, property or United States mail in
40 intrastate, interstate or foreign commerce.

41 50. Sales of alternative fuel vehicles if the vehicle was manufactured
42 as a diesel fuel vehicle and converted to operate on alternative fuel and
43 equipment that is installed in a conventional diesel fuel motor vehicle to
44 convert the vehicle to operate on an alternative fuel, as defined in section
45 1-215.

1 51. Sales of any spirituous, vinous or malt liquor by a person that is
2 licensed in this state as a wholesaler by the department of liquor licenses
3 and control pursuant to title 4, chapter 2, article 1.

4 52. Sales of tangible personal property to be incorporated or installed
5 as part of environmental response or remediation activities under section
6 42-5075, subsection B, paragraph 6.

7 53. Sales of tangible personal property by a nonprofit organization
8 that is exempt from taxation under section 501(c)(6) of the internal revenue
9 code if the organization produces, organizes or promotes cultural or civic
10 related festivals or events and no part of the organization's net earnings
11 inures to the benefit of any private shareholder or individual.

12 54. Through August 31, 2014, sales of Arizona centennial medallions by
13 the historical advisory commission.

14 55. THROUGH DECEMBER 31, 2013, SALES OF THE FOLLOWING ELECTRIC
15 APPLIANCES THAT MEET OR EXCEED THE APPLICABLE ENERGY STAR EFFICIENCY
16 REQUIREMENTS DEVELOPED BY THE UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
17 AND THE UNITED STATES DEPARTMENT OF ENERGY:

18 (a) ENERGY STAR QUALIFIED CLOTHES WASHER.

19 (b) ENERGY STAR QUALIFIED STANDARD SIZE REFRIGERATOR.

20 (c) ENERGY STAR QUALIFIED CHEST OR UPRIGHT FREEZER.

21 B. In addition to the deductions from the tax base prescribed by
22 subsection A of this section, the gross proceeds of sales or gross income
23 derived from sales of the following categories of tangible personal property
24 shall be deducted from the tax base:

25 1. Machinery, or equipment, used directly in manufacturing,
26 processing, fabricating, job printing, refining or metallurgical operations.
27 The terms "manufacturing", "processing", "fabricating", "job printing",
28 "refining" and "metallurgical" as used in this paragraph refer to and include
29 those operations commonly understood within their ordinary meaning.
30 "Metallurgical operations" includes leaching, milling, precipitating,
31 smelting and refining.

32 2. Mining machinery, or equipment, used directly in the process of
33 extracting ores or minerals from the earth for commercial purposes, including
34 equipment required to prepare the materials for extraction and handling,
35 loading or transporting such extracted material to the surface. "Mining"
36 includes underground, surface and open pit operations for extracting ores and
37 minerals.

38 3. Tangible personal property sold to persons engaged in business
39 classified under the telecommunications classification and consisting of
40 central office switching equipment, switchboards, private branch exchange
41 equipment, microwave radio equipment and carrier equipment including optical
42 fiber, coaxial cable and other transmission media which are components of
43 carrier systems.

44 4. Machinery, equipment or transmission lines used directly in
45 producing or transmitting electrical power, but not including distribution.

1 Transformers and control equipment used at transmission substation sites
2 constitute equipment used in producing or transmitting electrical power.

3 5. Neat animals, horses, asses, sheep, raptures, swine or goats used or
4 to be used as breeding or production stock, including sales of breedings or
5 ownership shares in such animals used for breeding or production.

6 6. Pipes or valves four inches in diameter or larger used to transport
7 oil, natural gas, artificial gas, water or coal slurry, including compressor
8 units, regulators, machinery and equipment, fittings, seals and any other
9 part that is used in operating the pipes or valves.

10 7. Aircraft, navigational and communication instruments and other
11 accessories and related equipment sold to:

12 (a) A person holding a federal certificate of public convenience and
13 necessity, a supplemental air carrier certificate under federal aviation
14 regulations (14 Code of Federal Regulations part 121) or a foreign air
15 carrier permit for air transportation for use as or in conjunction with or
16 becoming a part of aircraft to be used to transport persons, property or
17 United States mail in intrastate, interstate or foreign commerce.

18 (b) Any foreign government for use by such government outside of this
19 state.

20 (c) Persons who are not residents of this state and who will not use
21 such property in this state other than in removing such property from this
22 state. This subdivision also applies to corporations that are not
23 incorporated in this state, regardless of maintaining a place of business in
24 this state, if the principal corporate office is located outside this state
25 and the property will not be used in this state other than in removing the
26 property from this state.

27 8. Machinery, tools, equipment and related supplies used or consumed
28 directly in repairing, remodeling or maintaining aircraft, aircraft engines
29 or aircraft component parts by or on behalf of a certificated or licensed
30 carrier of persons or property.

31 9. Railroad rolling stock, rails, ties and signal control equipment
32 used directly to transport persons or property.

33 10. Machinery or equipment used directly to drill for oil or gas or
34 used directly in the process of extracting oil or gas from the earth for
35 commercial purposes.

36 11. Buses or other urban mass transit vehicles which are used directly
37 to transport persons or property for hire or pursuant to a governmentally
38 adopted and controlled urban mass transportation program and which are sold
39 to bus companies holding a federal certificate of convenience and necessity
40 or operated by any city, town or other governmental entity or by any person
41 contracting with such governmental entity as part of a governmentally adopted
42 and controlled program to provide urban mass transportation.

43 12. Groundwater measuring devices required under section 45-604.

44 13. New machinery and equipment consisting of tractors, tractor-drawn
45 implements, self-powered implements, machinery and equipment necessary for

1 extracting milk, and machinery and equipment necessary for cooling milk and
2 livestock, and drip irrigation lines not already exempt under paragraph 6 of
3 this subsection and that are used for commercial production of agricultural,
4 horticultural, viticultural and floricultural crops and products in this
5 state. For the purposes of this paragraph:

6 (a) "New machinery and equipment" means machinery and equipment which
7 have never been sold at retail except pursuant to leases or rentals which do
8 not total two years or more.

9 (b) "Self-powered implements" includes machinery and equipment that
10 are electric-powered.

11 14. Machinery or equipment used in research and development. For the
12 purposes of this paragraph, "research and development" means basic and
13 applied research in the sciences and engineering, and designing, developing
14 or testing prototypes, processes or new products, including research and
15 development of computer software that is embedded in or an integral part of
16 the prototype or new product or that is required for machinery or equipment
17 otherwise exempt under this section to function effectively. Research and
18 development do not include manufacturing quality control, routine consumer
19 product testing, market research, sales promotion, sales service, research in
20 social sciences or psychology, computer software research that is not
21 included in the definition of research and development, or other
22 nontechnological activities or technical services.

23 15. Machinery and equipment that are purchased by or on behalf of the
24 owners of a soundstage complex and primarily used for motion picture,
25 multimedia or interactive video production in the complex. This paragraph
26 applies only if the initial construction of the soundstage complex begins
27 after June 30, 1996 and before January 1, 2002 and the machinery and
28 equipment are purchased before the expiration of five years after the start
29 of initial construction. For the purposes of this paragraph:

30 (a) "Motion picture, multimedia or interactive video production"
31 includes products for theatrical and television release, educational
32 presentations, electronic retailing, documentaries, music videos, industrial
33 films, CD-ROM, video game production, commercial advertising and television
34 episode production and other genres that are introduced through developing
35 technology.

36 (b) "Soundstage complex" means a facility of multiple stages including
37 production offices, construction shops and related areas, prop and costume
38 shops, storage areas, parking for production vehicles and areas that are
39 leased to businesses that complement the production needs and orientation of
40 the overall facility.

41 16. Tangible personal property that is used by either of the following
42 to receive, store, convert, produce, generate, decode, encode, control or
43 transmit telecommunications information:

1 (a) Any direct broadcast satellite television or data transmission
2 service that operates pursuant to 47 Code of Federal Regulations parts 25 and
3 100.

4 (b) Any satellite television or data transmission facility, if both of
5 the following conditions are met:

6 (i) Over two-thirds of the transmissions, measured in megabytes,
7 transmitted by the facility during the test period were transmitted to or on
8 behalf of one or more direct broadcast satellite television or data
9 transmission services that operate pursuant to 47 Code of Federal Regulations
10 parts 25 and 100.

11 (ii) Over two-thirds of the transmissions, measured in megabytes,
12 transmitted by or on behalf of those direct broadcast television or data
13 transmission services during the test period were transmitted by the facility
14 to or on behalf of those services.

15 For the purposes of subdivision (b) of this paragraph, "test period" means
16 the three hundred sixty-five day period beginning on the later of the date on
17 which the tangible personal property is purchased or the date on which the
18 direct broadcast satellite television or data transmission service first
19 transmits information to its customers.

20 17. Clean rooms that are used for manufacturing, processing,
21 fabrication or research and development, as defined in paragraph 14 of this
22 subsection, of semiconductor products. For the purposes of this paragraph,
23 "clean room" means all property that comprises or creates an environment
24 where humidity, temperature, particulate matter and contamination are
25 precisely controlled within specified parameters, without regard to whether
26 the property is actually contained within that environment or whether any of
27 the property is affixed to or incorporated into real property. Clean room:

28 (a) Includes the integrated systems, fixtures, piping, movable
29 partitions, lighting and all property that is necessary or adapted to reduce
30 contamination or to control airflow, temperature, humidity, chemical purity
31 or other environmental conditions or manufacturing tolerances, as well as the
32 production machinery and equipment operating in conjunction with the clean
33 room environment.

34 (b) Does not include the building or other permanent, nonremovable
35 component of the building that houses the clean room environment.

36 18. Machinery and equipment used directly in the feeding of poultry,
37 the environmental control of housing for poultry, the movement of eggs within
38 a production and packaging facility or the sorting or cooling of eggs. This
39 exemption does not apply to vehicles used for transporting eggs.

40 19. Machinery or equipment, including related structural components,
41 that is employed in connection with manufacturing, processing, fabricating,
42 job printing, refining, mining, natural gas pipelines, metallurgical
43 operations, telecommunications, producing or transmitting electricity or
44 research and development and that is used directly to meet or exceed rules or
45 regulations adopted by the federal energy regulatory commission, the United

1 States environmental protection agency, the United States nuclear regulatory
2 commission, the Arizona department of environmental quality or a political
3 subdivision of this state to prevent, monitor, control or reduce land, water
4 or air pollution.

5 20. Machinery and equipment that are sold to a person engaged in the
6 commercial production of livestock, livestock products or agricultural,
7 horticultural, viticultural or floricultural crops or products in this state
8 and that are used directly and primarily to prevent, monitor, control or
9 reduce air, water or land pollution.

10 21. Machinery or equipment that enables a television station to
11 originate and broadcast or to receive and broadcast digital television
12 signals and that was purchased to facilitate compliance with the
13 telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United States
14 Code section 336) and the federal communications commission order issued
15 April 21, 1997 (47 Code of Federal Regulations part 73). This paragraph does
16 not exempt any of the following:

17 (a) Repair or replacement parts purchased for the machinery or
18 equipment described in this paragraph.

19 (b) Machinery or equipment purchased to replace machinery or equipment
20 for which an exemption was previously claimed and taken under this paragraph.

21 (c) Any machinery or equipment purchased after the television station
22 has ceased analog broadcasting, or purchased after November 1, 2009,
23 whichever occurs first.

24 22. Qualifying equipment that is purchased from and after June 30, 2004
25 through June 30, 2014 by a qualified business under section 41-1516 for
26 harvesting or the initial processing of qualifying forest products removed
27 from qualifying projects as defined in section 41-1516. To qualify for this
28 deduction, the qualified business at the time of purchase must present its
29 certification approved by the department.

30 23. Machinery, equipment and other tangible personal property used
31 directly in motion picture production by a motion picture production company.
32 To qualify for this deduction, at the time of purchase, the motion picture
33 production company must present to the retailer its certificate that is
34 issued pursuant to section 42-5009, subsection H and that establishes its
35 qualification for the deduction.

36 C. The deductions provided by subsection B of this section do not
37 include sales of:

38 1. Expendable materials. For the purposes of this paragraph,
39 expendable materials do not include any of the categories of tangible
40 personal property specified in subsection B of this section regardless of the
41 cost or useful life of that property.

42 2. Janitorial equipment and hand tools.

43 3. Office equipment, furniture and supplies.

1 4. Tangible personal property used in selling or distributing
2 activities, other than the telecommunications transmissions described in
3 subsection B, paragraph 16 of this section.

4 5. Motor vehicles required to be licensed by this state, except buses
5 or other urban mass transit vehicles specifically exempted pursuant to
6 subsection B, paragraph 11 of this section, without regard to the use of such
7 motor vehicles.

8 6. Shops, buildings, docks, depots and all other materials of whatever
9 kind or character not specifically included as exempt.

10 7. Motors and pumps used in drip irrigation systems.

11 D. In addition to the deductions from the tax base prescribed by
12 subsection A of this section, there shall be deducted from the tax base the
13 gross proceeds of sales or gross income derived from sales of machinery,
14 equipment, materials and other tangible personal property used directly and
15 predominantly to construct a qualified environmental technology
16 manufacturing, producing or processing facility as described in section
17 41-1514.02. This subsection applies for ten full consecutive calendar or
18 fiscal years after the start of initial construction.

19 E. In computing the tax base, gross proceeds of sales or gross income
20 from retail sales of heavy trucks and trailers does not include any amount
21 attributable to federal excise taxes imposed by 26 United States Code section
22 4051.

23 F. In computing the tax base, gross proceeds of sales or gross income
24 from the sale of use fuel, as defined in section 28-5601, does not include
25 any amount attributable to federal excise taxes imposed by 26 United States
26 Code section 4091.

27 G. If a person is engaged in an occupation or business to which
28 subsection A of this section applies, the person's books shall be kept so as
29 to show separately the gross proceeds of sales of tangible personal property
30 and the gross income from sales of services, and if not so kept the tax shall
31 be imposed on the total of the person's gross proceeds of sales of tangible
32 personal property and gross income from services.

33 H. If a person is engaged in the business of selling tangible personal
34 property at both wholesale and retail, the tax under this section applies
35 only to the gross proceeds of the sales made other than at wholesale if the
36 person's books are kept so as to show separately the gross proceeds of sales
37 of each class, and if the books are not so kept, the tax under this section
38 applies to the gross proceeds of every sale so made.

39 I. A person who engages in manufacturing, baling, crating, boxing,
40 barreling, canning, bottling, sacking, preserving, processing or otherwise
41 preparing for sale or commercial use any livestock, agricultural or
42 horticultural product or any other product, article, substance or commodity
43 and who sells the product of such business at retail in this state is deemed,
44 as to such sales, to be engaged in business classified under the retail

1 classification. This subsection does not apply to businesses classified
2 under the:

- 3 1. Transporting classification.
- 4 2. Utilities classification.
- 5 3. Telecommunications classification.
- 6 4. Pipeline classification.
- 7 5. Private car line classification.
- 8 6. Publication classification.
- 9 7. Job printing classification.
- 10 8. Prime contracting classification.
- 11 9. Owner builder sales classification.
- 12 10. Restaurant classification.

13 J. The gross proceeds of sales or gross income derived from the
14 following shall be deducted from the tax base for the retail classification:

- 15 1. Sales made directly to the United States government or its
16 departments or agencies by a manufacturer, modifier, assembler or repairer.
- 17 2. Sales made directly to a manufacturer, modifier, assembler or
18 repairer if such sales are of any ingredient or component part of products
19 sold directly to the United States government or its departments or agencies
20 by the manufacturer, modifier, assembler or repairer.
- 21 3. Overhead materials or other tangible personal property that is used
22 in performing a contract between the United States government and a
23 manufacturer, modifier, assembler or repairer, including property used in
24 performing a subcontract with a government contractor who is a manufacturer,
25 modifier, assembler or repairer, to which title passes to the government
26 under the terms of the contract or subcontract.
- 27 4. Sales of overhead materials or other tangible personal property to
28 a manufacturer, modifier, assembler or repairer if the gross proceeds of
29 sales or gross income derived from the property by the manufacturer,
30 modifier, assembler or repairer will be exempt under paragraph 3 of this
31 subsection.

32 K. There shall be deducted from the tax base fifty per cent of the
33 gross proceeds or gross income from any sale of tangible personal property
34 made directly to the United States government or its departments or agencies,
35 which is not deducted under subsection J of this section.

36 L. The department shall require every person claiming a deduction
37 provided by subsection J or K of this section to file on forms prescribed by
38 the department at such times as the department directs a sworn statement
39 disclosing the name of the purchaser and the exact amount of sales on which
40 the exclusion or deduction is claimed.

41 M. In computing the tax base, gross proceeds of sales or gross income
42 does not include:

- 43 1. A manufacturer's cash rebate on the sales price of a motor vehicle
44 if the buyer assigns the buyer's right in the rebate to the retailer.
- 45 2. The waste tire disposal fee imposed pursuant to section 44-1302.

1 N. There shall be deducted from the tax base the amount received from
2 sales of solar energy devices. The retailer shall register with the
3 department as a solar energy retailer. By registering, the retailer
4 acknowledges that it will make its books and records relating to sales of
5 solar energy devices available to the department for examination.

6 O. In computing the tax base in the case of the sale or transfer of
7 wireless telecommunications equipment as an inducement to a customer to enter
8 into or continue a contract for telecommunications services that are taxable
9 under section 42-5064, gross proceeds of sales or gross income does not
10 include any sales commissions or other compensation received by the retailer
11 as a result of the customer entering into or continuing a contract for the
12 telecommunications services.

13 P. For the purposes of this section, a sale of wireless
14 telecommunications equipment to a person who holds the equipment for sale or
15 transfer to a customer as an inducement to enter into or continue a contract
16 for telecommunications services that are taxable under section 42-5064 is
17 considered to be a sale for resale in the regular course of business.

18 Q. Retail sales of prepaid calling cards or prepaid authorization
19 numbers for telecommunications services, including sales of reauthorization
20 of a prepaid card or authorization number, are subject to tax under this
21 section.

22 R. For the purposes of this section, the diversion of gas from a
23 pipeline by a person engaged in the business of:

24 1. Operating a natural or artificial gas pipeline, for the sole
25 purpose of fueling compressor equipment to pressurize the pipeline, is not a
26 sale of the gas to the operator of the pipeline.

27 2. Converting natural gas into liquefied natural gas, for the sole
28 purpose of fueling compressor equipment used in the conversion process, is
29 not a sale of gas to the operator of the compressor equipment.

30 S. If a seller is entitled to a deduction pursuant to subsection B,
31 paragraph 16, subdivision (b) of this section, the department may require the
32 purchaser to establish that the requirements of subsection B, paragraph 16,
33 subdivision (b) of this section have been satisfied. If the purchaser cannot
34 establish that the requirements of subsection B, paragraph 16, subdivision
35 (b) of this section have been satisfied, the purchaser is liable in an amount
36 equal to any tax, penalty and interest which the seller would have been
37 required to pay under article 1 of this chapter if the seller had not made a
38 deduction pursuant to subsection B, paragraph 16, subdivision (b) of this
39 section. Payment of the amount under this subsection exempts the purchaser
40 from liability for any tax imposed under article 4 of this chapter and
41 related to the tangible personal property purchased. The amount shall be
42 treated as transaction privilege tax to the purchaser and as tax revenues
43 collected from the seller to designate the distribution base pursuant to
44 section 42-5029.

1 T. For the purposes of section 42-5032.01, the department shall
2 separately account for revenues collected under the retail classification
3 from businesses selling tangible personal property at retail:

4 1. On the premises of a multipurpose facility that is owned, leased or
5 operated by the tourism and sports authority pursuant to title 5, chapter 8.

6 2. At professional football contests that are held in a stadium
7 located on the campus of an institution under the jurisdiction of the Arizona
8 board of regents.

9 U. In computing the tax base for the sale of a motor vehicle to a
10 nonresident of this state, if the purchaser's state of residence allows a
11 corresponding use tax exemption to the tax imposed by article 1 of this
12 chapter and the rate of the tax in the purchaser's state of residence is
13 lower than the rate prescribed in article 1 of this chapter or if the
14 purchaser's state of residence does not impose an excise tax, and the
15 nonresident has secured a special ninety day nonresident registration permit
16 for the vehicle as prescribed by sections 28-2154 and 28-2154.01, there shall
17 be deducted from the tax base a portion of the gross proceeds or gross income
18 from the sale so that the amount of transaction privilege tax that is paid in
19 this state is equal to the excise tax that is imposed by the purchaser's
20 state of residence on the nonexempt sale or use of the motor vehicle.

21 V. For the purposes of this section:

22 1. "Aircraft" includes:

23 (a) An airplane flight simulator that is approved by the federal
24 aviation administration for use as a phase II or higher flight simulator
25 under appendix H, 14 Code of Federal Regulations part 121.

26 (b) Tangible personal property that is permanently affixed or attached
27 as a component part of an aircraft that is owned or operated by a
28 certificated or licensed carrier of persons or property.

29 2. "Other accessories and related equipment" includes aircraft
30 accessories and equipment such as ground service equipment that physically
31 contact aircraft at some point during the overall carrier operation.

32 3. "Selling at retail" means a sale for any purpose other than for
33 resale in the regular course of business in the form of tangible personal
34 property, but transfer of possession, lease and rental as used in the
35 definition of sale mean only such transactions as are found on investigation
36 to be in lieu of sales as defined without the words lease or rental.

37 W. For the purposes of subsection J of this section:

38 1. "Assembler" means a person who unites or combines products, wares
39 or articles of manufacture so as to produce a change in form or substance
40 without changing or altering the component parts.

41 2. "Manufacturer" means a person who is principally engaged in the
42 fabrication, production or manufacture of products, wares or articles for use
43 from raw or prepared materials, imparting to those materials new forms,
44 qualities, properties and combinations.

1 3. "Modifier" means a person who reworks, changes or adds to products,
2 wares or articles of manufacture.

3 4. "Overhead materials" means tangible personal property, the gross
4 proceeds of sales or gross income derived from which would otherwise be
5 included in the retail classification, and which are used or consumed in the
6 performance of a contract, the cost of which is charged to an overhead
7 expense account and allocated to various contracts based upon generally
8 accepted accounting principles and consistent with government contract
9 accounting standards.

10 5. "Repairer" means a person who restores or renews products, wares or
11 articles of manufacture.

12 6. "Subcontract" means an agreement between a contractor and any
13 person who is not an employee of the contractor for furnishing of supplies or
14 services that, in whole or in part, are necessary to the performance of one
15 or more government contracts, or under which any portion of the contractor's
16 obligation under one or more government contracts is performed, undertaken or
17 assumed and that includes provisions causing title to overhead materials or
18 other tangible personal property used in the performance of the subcontract
19 to pass to the government or that includes provisions incorporating such
20 title passing clauses in a government contract into the subcontract.

21 Sec. 2. Section 42-5159, Arizona Revised Statutes, is amended to read:

22 42-5159. Exemptions

23 A. The tax levied by this article does not apply to the storage, use
24 or consumption in this state of the following described tangible personal
25 property:

26 1. Tangible personal property sold in this state, the gross receipts
27 from the sale of which are included in the measure of the tax imposed by
28 articles 1 and 2 of this chapter.

29 2. Tangible personal property the sale or use of which has already
30 been subjected to an excise tax at a rate equal to or exceeding the tax
31 imposed by this article under the laws of another state of the United States.
32 If the excise tax imposed by the other state is at a rate less than the tax
33 imposed by this article, the tax imposed by this article is reduced by the
34 amount of the tax already imposed by the other state.

35 3. Tangible personal property, the storage, use or consumption of
36 which the constitution or laws of the United States prohibit this state from
37 taxing or to the extent that the rate or imposition of tax is
38 unconstitutional under the laws of the United States.

39 4. Tangible personal property which directly enters into and becomes
40 an ingredient or component part of any manufactured, fabricated or processed
41 article, substance or commodity for sale in the regular course of business.

42 5. Motor vehicle fuel and use fuel, the sales, distribution or use of
43 which in this state is subject to the tax imposed under title 28, chapter 16,
44 article 1, use fuel which is sold to or used by a person holding a valid
45 single trip use fuel tax permit issued under section 28-5739, aviation fuel,

1 the sales, distribution or use of which in this state is subject to the tax
2 imposed under section 28-8344, and jet fuel, the sales, distribution or use
3 of which in this state is subject to the tax imposed under article 8 of this
4 chapter.

5 6. Tangible personal property brought into this state by an individual
6 who was a nonresident at the time the property was purchased for storage, use
7 or consumption by the individual if the first actual use or consumption of
8 the property was outside this state, unless the property is used in
9 conducting a business in this state.

10 7. Purchases of implants used as growth promotants and injectable
11 medicines, not already exempt under paragraph 16 of this subsection, for
12 livestock and poultry owned by, or in possession of, persons who are engaged
13 in producing livestock, poultry, or livestock or poultry products, or who are
14 engaged in feeding livestock or poultry commercially. For the purposes of
15 this paragraph, "poultry" includes ratites.

16 8. Livestock, poultry, supplies, feed, salts, vitamins and other
17 additives for use or consumption in the businesses of farming, ranching and
18 feeding livestock or poultry, not including fertilizers, herbicides and
19 insecticides. For the purposes of this paragraph, "poultry" includes
20 ratites.

21 9. Seeds, seedlings, roots, bulbs, cuttings and other propagative
22 material for use in commercially producing agricultural, horticultural,
23 viticultural or floricultural crops in this state.

24 10. Tangible personal property not exceeding two hundred dollars in any
25 one month purchased by an individual at retail outside the continental limits
26 of the United States for the individual's own personal use and enjoyment.

27 11. Advertising supplements which are intended for sale with newspapers
28 published in this state and which have already been subjected to an excise
29 tax under the laws of another state in the United States which equals or
30 exceeds the tax imposed by this article.

31 12. Materials that are purchased by or for publicly funded libraries
32 including school district libraries, charter school libraries, community
33 college libraries, state university libraries or federal, state, county or
34 municipal libraries for use by the public as follows:

35 (a) Printed or photographic materials, beginning August 7, 1985.

36 (b) Electronic or digital media materials, beginning July 17, 1994.

37 13. Tangible personal property purchased by:

38 (a) A hospital organized and operated exclusively for charitable
39 purposes, no part of the net earnings of which inures to the benefit of any
40 private shareholder or individual.

41 (b) A hospital operated by this state or a political subdivision of
42 this state.

43 (c) A licensed nursing care institution or a licensed residential care
44 institution or a residential care facility operated in conjunction with a
45 licensed nursing care institution or a licensed kidney dialysis center, which

1 provides medical services, nursing services or health related services and is
2 not used or held for profit.

3 (d) A qualifying health care organization, as defined in section
4 42-5001, if the tangible personal property is used by the organization solely
5 to provide health and medical related educational and charitable services.

6 (e) A qualifying health care organization as defined in section
7 42-5001 if the organization is dedicated to providing educational,
8 therapeutic, rehabilitative and family medical education training for blind,
9 visually impaired and multihandicapped children from the time of birth to age
10 twenty-one.

11 (f) A nonprofit charitable organization that has qualified under
12 section 501(c)(3) of the United States internal revenue code and that engages
13 in and uses such property exclusively in programs for mentally or physically
14 handicapped persons if the programs are exclusively for training, job
15 placement, rehabilitation or testing.

16 (g) A person that is subject to tax under article 1 of this chapter by
17 reason of being engaged in business classified under the prime contracting
18 classification under section 42-5075, or a subcontractor working under the
19 control of a prime contractor, if the tangible personal property is any of
20 the following:

21 (i) Incorporated or fabricated by the contractor into a structure,
22 project, development or improvement in fulfillment of a contract.

23 (ii) Used in environmental response or remediation activities under
24 section 42-5075, subsection B, paragraph 6.

25 (iii) Incorporated or fabricated by the person into any lake facility
26 development in a commercial enhancement reuse district under conditions
27 prescribed for the deduction allowed by section 42-5075, subsection B,
28 paragraph 8.

29 (h) A nonprofit charitable organization that has qualified under
30 section 501(c)(3) of the internal revenue code if the property is purchased
31 from the parent or an affiliate organization that is located outside this
32 state.

33 (i) A qualifying community health center as defined in section
34 42-5001.

35 (j) A nonprofit charitable organization that has qualified under
36 section 501(c)(3) of the internal revenue code and that regularly serves
37 meals to the needy and indigent on a continuing basis at no cost.

38 (k) A person engaged in business under the transient lodging
39 classification if the property is a personal hygiene item or articles used by
40 human beings for food, drink or condiment, except alcoholic beverages, which
41 are furnished without additional charge to and intended to be consumed by the
42 transient during the transient's occupancy.

43 (l) For taxable periods beginning from and after June 30, 2001, a
44 nonprofit charitable organization that has qualified under section 501(c)(3)
45 of the internal revenue code and that provides residential apartment housing

1 for low income persons over sixty-two years of age in a facility that
2 qualifies for a federal housing subsidy, if the tangible personal property is
3 used by the organization solely to provide residential apartment housing for
4 low income persons over sixty-two years of age in a facility that qualifies
5 for a federal housing subsidy.

6 14. Commodities, as defined by title 7 United States Code section 2,
7 that are consigned for resale in a warehouse in this state in or from which
8 the commodity is deliverable on a contract for future delivery subject to the
9 rules of a commodity market regulated by the United States commodity futures
10 trading commission.

11 15. Tangible personal property sold by:

12 (a) Any nonprofit organization organized and operated exclusively for
13 charitable purposes and recognized by the United States internal revenue
14 service under section 501(c)(3) of the internal revenue code.

15 (b) A nonprofit organization that is exempt from taxation under
16 section 501(c)(3) or 501(c)(6) of the internal revenue code if the
17 organization is associated with a major league baseball team or a national
18 touring professional golfing association and no part of the organization's
19 net earnings inures to the benefit of any private shareholder or individual.

20 (c) A nonprofit organization that is exempt from taxation under
21 section 501(c)(3), 501(c)(4), 501(c)(6), 501(c)(7) or 501(c)(8) of the
22 internal revenue code if the organization sponsors or operates a rodeo
23 featuring primarily farm and ranch animals and no part of the organization's
24 net earnings inures to the benefit of any private shareholder or individual.

25 16. Drugs and medical oxygen, including delivery hose, mask or tent,
26 regulator and tank, on the prescription of a member of the medical, dental or
27 veterinarian profession who is licensed by law to administer such substances.

28 17. Prosthetic appliances, as defined in section 23-501, prescribed or
29 recommended by a person who is licensed, registered or otherwise
30 professionally credentialed as a physician, dentist, podiatrist,
31 chiropractor, naturopath, homeopath, nurse or optometrist.

32 18. Prescription eyeglasses and contact lenses.

33 19. Insulin, insulin syringes and glucose test strips.

34 20. Hearing aids as defined in section 36-1901.

35 21. Durable medical equipment which has a centers for medicare and
36 medicaid services common procedure code, is designated reimbursable by
37 medicare, is prescribed by a person who is licensed under title 32, chapter
38 7, 13, 17 or 29, can withstand repeated use, is primarily and customarily
39 used to serve a medical purpose, is generally not useful to a person in the
40 absence of illness or injury and is appropriate for use in the home.

41 22. Food, as provided in and subject to the conditions of article 3 of
42 this chapter and section 42-5074.

43 23. Items purchased with United States department of agriculture food
44 stamp coupons issued under the food stamp act of 1977 (P.L. 95-113; 91 Stat.
45 958) or food instruments issued under section 17 of the child nutrition act

1 (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; 42 United States Code
2 section 1786).

3 24. Food and drink provided without monetary charge by a taxpayer which
4 is subject to section 42-5074 to its employees for their own consumption on
5 the premises during the employees' hours of employment.

6 25. Tangible personal property that is used or consumed in a business
7 subject to section 42-5074 for human food, drink or condiment, whether
8 simple, mixed or compounded.

9 26. Food, drink or condiment and accessory tangible personal property
10 that are acquired for use by or provided to a school district or charter
11 school if they are to be either served or prepared and served to persons for
12 consumption on the premises of a public school in a school district during
13 school hours.

14 27. Lottery tickets or shares purchased pursuant to title 5, chapter 5,
15 article 1.

16 28. Textbooks, sold by a bookstore, that are required by any state
17 university or community college.

18 29. Magazines, other periodicals or other publications produced by this
19 state to encourage tourist travel.

20 30. Paper machine clothing, such as forming fabrics and dryer felts,
21 purchased by a paper manufacturer and directly used or consumed in paper
22 manufacturing.

23 31. Coal, petroleum, coke, natural gas, virgin fuel oil and electricity
24 purchased by a qualified environmental technology manufacturer, producer or
25 processor as defined in section 41-1514.02 and directly used or consumed in
26 the generation or provision of on-site power or energy solely for
27 environmental technology manufacturing, producing or processing or
28 environmental protection. This paragraph shall apply for fifteen full
29 consecutive calendar or fiscal years from the date the first paper
30 manufacturing machine is placed in service. In the case of an environmental
31 technology manufacturer, producer or processor who does not manufacture
32 paper, the time period shall begin with the date the first manufacturing,
33 processing or production equipment is placed in service.

34 32. Motor vehicles that are removed from inventory by a motor vehicle
35 dealer as defined in section 28-4301 and that are provided to:

36 (a) Charitable or educational institutions that are exempt from
37 taxation under section 501(c)(3) of the internal revenue code.

38 (b) Public educational institutions.

39 (c) State universities or affiliated organizations of a state
40 university if no part of the organization's net earnings inures to the
41 benefit of any private shareholder or individual.

42 33. Natural gas or liquefied petroleum gas used to propel a motor
43 vehicle.

44 34. Machinery, equipment, technology or related supplies that are only
45 useful to assist a person who is physically disabled as defined in section

1 46-191, has a developmental disability as defined in section 36-551 or has a
2 head injury as defined in section 41-3201 to be more independent and
3 functional.

4 35. Liquid, solid or gaseous chemicals used in manufacturing,
5 processing, fabricating, mining, refining, metallurgical operations, research
6 and development and, beginning on January 1, 1999, printing, if using or
7 consuming the chemicals, alone or as part of an integrated system of
8 chemicals, involves direct contact with the materials from which the product
9 is produced for the purpose of causing or permitting a chemical or physical
10 change to occur in the materials as part of the production process. This
11 paragraph does not include chemicals that are used or consumed in activities
12 such as packaging, storage or transportation but does not affect any
13 exemption for such chemicals that is otherwise provided by this section. For
14 the purposes of this paragraph, "printing" means a commercial printing
15 operation and includes job printing, engraving, embossing, copying and
16 bookbinding.

17 36. Food, drink and condiment purchased for consumption within the
18 premises of any prison, jail or other institution under the jurisdiction of
19 the state department of corrections, the department of public safety, the
20 department of juvenile corrections or a county sheriff.

21 37. A motor vehicle and any repair and replacement parts and tangible
22 personal property becoming a part of such motor vehicle sold to a motor
23 carrier who is subject to a fee prescribed in title 28, chapter 16, article 4
24 and who is engaged in the business of leasing or renting such property.

25 38. Tangible personal property which is or directly enters into and
26 becomes an ingredient or component part of cards used as prescription plan
27 identification cards.

28 39. Overhead materials or other tangible personal property that is used
29 in performing a contract between the United States government and a
30 manufacturer, modifier, assembler or repairer, including property used in
31 performing a subcontract with a government contractor who is a manufacturer,
32 modifier, assembler or repairer, to which title passes to the government
33 under the terms of the contract or subcontract. For the purposes of this
34 paragraph:

35 (a) "Overhead materials" means tangible personal property, the gross
36 proceeds of sales or gross income derived from which would otherwise be
37 included in the retail classification, and which are used or consumed in the
38 performance of a contract, the cost of which is charged to an overhead
39 expense account and allocated to various contracts based upon generally
40 accepted accounting principles and consistent with government contract
41 accounting standards.

42 (b) "Subcontract" means an agreement between a contractor and any
43 person who is not an employee of the contractor for furnishing of supplies or
44 services that, in whole or in part, are necessary to the performance of one
45 or more government contracts, or under which any portion of the contractor's

1 obligation under one or more government contracts is performed, undertaken or
2 assumed, and that includes provisions causing title to overhead materials or
3 other tangible personal property used in the performance of the subcontract
4 to pass to the government or that includes provisions incorporating such
5 title passing clauses in a government contract into the subcontract.

6 40. Through December 31, 1994, tangible personal property sold pursuant
7 to a personal property liquidation transaction, as defined in section
8 42-5061. From and after December 31, 1994, tangible personal property sold
9 pursuant to a personal property liquidation transaction, as defined in
10 section 42-5061, if the gross proceeds of the sales were included in the
11 measure of the tax imposed by article 1 of this chapter or if the personal
12 property liquidation was a casual activity or transaction.

13 41. Wireless telecommunications equipment that is held for sale or
14 transfer to a customer as an inducement to enter into or continue a contract
15 for telecommunications services that are taxable under section 42-5064.

16 42. Alternative fuel, as defined in section 1-215, purchased by a used
17 oil fuel burner who has received a permit to burn used oil or used oil fuel
18 under section 49-426 or 49-480.

19 43. Tangible personal property purchased by a commercial airline and
20 consisting of food, beverages and condiments and accessories used for serving
21 the food and beverages, if those items are to be provided without additional
22 charge to passengers for consumption in flight. For the purposes of this
23 paragraph, "commercial airline" means a person holding a federal certificate
24 of public convenience and necessity or foreign air carrier permit for air
25 transportation to transport persons, property or United States mail in
26 intrastate, interstate or foreign commerce.

27 44. Alternative fuel vehicles if the vehicle was manufactured as a
28 diesel fuel vehicle and converted to operate on alternative fuel and
29 equipment that is installed in a conventional diesel fuel motor vehicle to
30 convert the vehicle to operate on an alternative fuel, as defined in section
31 1-215.

32 45. Gas diverted from a pipeline, by a person engaged in the business
33 of:

34 (a) Operating a natural or artificial gas pipeline, and used or
35 consumed for the sole purpose of fueling compressor equipment that
36 pressurizes the pipeline.

37 (b) Converting natural gas into liquefied natural gas, and used or
38 consumed for the sole purpose of fueling compressor equipment used in the
39 conversion process.

40 46. Tangible personal property that is excluded, exempt or deductible
41 from transaction privilege tax pursuant to section 42-5063.

42 47. Tangible personal property purchased to be incorporated or
43 installed as part of environmental response or remediation activities under
44 section 42-5075, subsection B, paragraph 6.

1 48. Tangible personal property sold by a nonprofit organization that is
2 exempt from taxation under section 501(c)(6) of the internal revenue code if
3 the organization produces, organizes or promotes cultural or civic related
4 festivals or events and no part of the organization's net earnings inures to
5 the benefit of any private shareholder or individual.

6 49. Prepared food, drink or condiment donated by a restaurant as
7 classified in section 42-5074, subsection A to a nonprofit charitable
8 organization that has qualified under section 501(c)(3) of the internal
9 revenue code and that regularly serves meals to the needy and indigent on a
10 continuing basis at no cost.

11 50. THROUGH DECEMBER 31, 2013, THE FOLLOWING ELECTRIC APPLIANCES THAT
12 MEET OR EXCEED THE APPLICABLE ENERGY STAR EFFICIENCY REQUIREMENTS DEVELOPED
13 BY THE UNITED STATES ENVIRONMENTAL PROTECTION AGENCY AND THE UNITED STATES
14 DEPARTMENT OF ENERGY:

15 (a) ENERGY STAR QUALIFIED CLOTHES WASHER.

16 (b) ENERGY STAR QUALIFIED STANDARD SIZE REFRIGERATOR.

17 (c) ENERGY STAR QUALIFIED CHEST OR UPRIGHT FREEZER.

18 B. In addition to the exemptions allowed by subsection A of this
19 section, the following categories of tangible personal property are also
20 exempt:

21 1. Machinery, or equipment, used directly in manufacturing,
22 processing, fabricating, job printing, refining or metallurgical operations.
23 The terms "manufacturing", "processing", "fabricating", "job printing",
24 "refining" and "metallurgical" as used in this paragraph refer to and include
25 those operations commonly understood within their ordinary meaning.
26 "Metallurgical operations" includes leaching, milling, precipitating,
27 smelting and refining.

28 2. Machinery, or equipment, used directly in the process of extracting
29 ores or minerals from the earth for commercial purposes, including equipment
30 required to prepare the materials for extraction and handling, loading or
31 transporting such extracted material to the surface. "Mining" includes
32 underground, surface and open pit operations for extracting ores and
33 minerals.

34 3. Tangible personal property sold to persons engaged in business
35 classified under the telecommunications classification under section 42-5064
36 and consisting of central office switching equipment, switchboards, private
37 branch exchange equipment, microwave radio equipment and carrier equipment
38 including optical fiber, coaxial cable and other transmission media which are
39 components of carrier systems.

40 4. Machinery, equipment or transmission lines used directly in
41 producing or transmitting electrical power, but not including distribution.
42 Transformers and control equipment used at transmission substation sites
43 constitute equipment used in producing or transmitting electrical power.

- 1 5. Neat animals, horses, asses, sheep, ratites, swine or goats used or
2 to be used as breeding or production stock, including sales of breedings or
3 ownership shares in such animals used for breeding or production.
- 4 6. Pipes or valves four inches in diameter or larger used to transport
5 oil, natural gas, artificial gas, water or coal slurry, including compressor
6 units, regulators, machinery and equipment, fittings, seals and any other
7 part that is used in operating the pipes or valves.
- 8 7. Aircraft, navigational and communication instruments and other
9 accessories and related equipment sold to:
- 10 (a) A person holding a federal certificate of public convenience and
11 necessity, a supplemental air carrier certificate under federal aviation
12 regulations (14 Code of Federal Regulations part 121) or a foreign air
13 carrier permit for air transportation for use as or in conjunction with or
14 becoming a part of aircraft to be used to transport persons, property or
15 United States mail in intrastate, interstate or foreign commerce.
- 16 (b) Any foreign government for use by such government outside of this
17 state, or sold to persons who are not residents of this state and who will
18 not use such property in this state other than in removing such property from
19 this state.
- 20 8. Machinery, tools, equipment and related supplies used or consumed
21 directly in repairing, remodeling or maintaining aircraft, aircraft engines
22 or aircraft component parts by or on behalf of a certificated or licensed
23 carrier of persons or property.
- 24 9. Rolling stock, rails, ties and signal control equipment used
25 directly to transport persons or property.
- 26 10. Machinery or equipment used directly to drill for oil or gas or
27 used directly in the process of extracting oil or gas from the earth for
28 commercial purposes.
- 29 11. Buses or other urban mass transit vehicles which are used directly
30 to transport persons or property for hire or pursuant to a governmentally
31 adopted and controlled urban mass transportation program and which are sold
32 to bus companies holding a federal certificate of convenience and necessity
33 or operated by any city, town or other governmental entity or by any person
34 contracting with such governmental entity as part of a governmentally adopted
35 and controlled program to provide urban mass transportation.
- 36 12. Groundwater measuring devices required under section 45-604.
- 37 13. New machinery and equipment consisting of tractors, tractor-drawn
38 implements, self-powered implements, machinery and equipment necessary for
39 extracting milk, and machinery and equipment necessary for cooling milk and
40 livestock, and drip irrigation lines not already exempt under paragraph 6 of
41 this subsection and that are used for commercial production of agricultural,
42 horticultural, viticultural and floricultural crops and products in this
43 state. For the purposes of this paragraph:

1 (a) "New machinery and equipment" means machinery or equipment which
2 has never been sold at retail except pursuant to leases or rentals which do
3 not total two years or more.

4 (b) "Self-powered implements" includes machinery and equipment that
5 are electric-powered.

6 14. Machinery or equipment used in research and development. For the
7 purposes of this paragraph, "research and development" means basic and
8 applied research in the sciences and engineering, and designing, developing
9 or testing prototypes, processes or new products, including research and
10 development of computer software that is embedded in or an integral part of
11 the prototype or new product or that is required for machinery or equipment
12 otherwise exempt under this section to function effectively. Research and
13 development do not include manufacturing quality control, routine consumer
14 product testing, market research, sales promotion, sales service, research in
15 social sciences or psychology, computer software research that is not
16 included in the definition of research and development, or other
17 nontechnological activities or technical services.

18 15. Machinery and equipment that are purchased by or on behalf of the
19 owners of a soundstage complex and primarily used for motion picture,
20 multimedia or interactive video production in the complex. This paragraph
21 applies only if the initial construction of the soundstage complex begins
22 after June 30, 1996 and before January 1, 2002 and the machinery and
23 equipment are purchased before the expiration of five years after the start
24 of initial construction. For the purposes of this paragraph:

25 (a) "Motion picture, multimedia or interactive video production"
26 includes products for theatrical and television release, educational
27 presentations, electronic retailing, documentaries, music videos, industrial
28 films, CD-ROM, video game production, commercial advertising and television
29 episode production and other genres that are introduced through developing
30 technology.

31 (b) "Soundstage complex" means a facility of multiple stages including
32 production offices, construction shops and related areas, prop and costume
33 shops, storage areas, parking for production vehicles and areas that are
34 leased to businesses that complement the production needs and orientation of
35 the overall facility.

36 16. Tangible personal property that is used by either of the following
37 to receive, store, convert, produce, generate, decode, encode, control or
38 transmit telecommunications information:

39 (a) Any direct broadcast satellite television or data transmission
40 service that operates pursuant to 47 Code of Federal Regulations parts 25 and
41 100.

42 (b) Any satellite television or data transmission facility, if both of
43 the following conditions are met:

44 (i) Over two-thirds of the transmissions, measured in megabytes,
45 transmitted by the facility during the test period were transmitted to or on

1 behalf of one or more direct broadcast satellite television or data
2 transmission services that operate pursuant to 47 Code of Federal Regulations
3 parts 25 and 100.

4 (ii) Over two-thirds of the transmissions, measured in megabytes,
5 transmitted by or on behalf of those direct broadcast television or data
6 transmission services during the test period were transmitted by the facility
7 to or on behalf of those services.

8 For the purposes of subdivision (b) of this paragraph, "test period" means
9 the three hundred sixty-five day period beginning on the later of the date on
10 which the tangible personal property is purchased or the date on which the
11 direct broadcast satellite television or data transmission service first
12 transmits information to its customers.

13 17. Clean rooms that are used for manufacturing, processing,
14 fabrication or research and development, as defined in paragraph 14 of this
15 subsection, of semiconductor products. For the purposes of this paragraph,
16 "clean room" means all property that comprises or creates an environment
17 where humidity, temperature, particulate matter and contamination are
18 precisely controlled within specified parameters, without regard to whether
19 the property is actually contained within that environment or whether any of
20 the property is affixed to or incorporated into real property. Clean room:

21 (a) Includes the integrated systems, fixtures, piping, movable
22 partitions, lighting and all property that is necessary or adapted to reduce
23 contamination or to control airflow, temperature, humidity, chemical purity
24 or other environmental conditions or manufacturing tolerances, as well as the
25 production machinery and equipment operating in conjunction with the clean
26 room environment.

27 (b) Does not include the building or other permanent, nonremovable
28 component of the building that houses the clean room environment.

29 18. Machinery and equipment that are used directly in the feeding of
30 poultry, the environmental control of housing for poultry, the movement of
31 eggs within a production and packaging facility or the sorting or cooling of
32 eggs. This exemption does not apply to vehicles used for transporting eggs.

33 19. Machinery or equipment, including related structural components,
34 that is employed in connection with manufacturing, processing, fabricating,
35 job printing, refining, mining, natural gas pipelines, metallurgical
36 operations, telecommunications, producing or transmitting electricity or
37 research and development and that is used directly to meet or exceed rules or
38 regulations adopted by the federal energy regulatory commission, the United
39 States environmental protection agency, the United States nuclear regulatory
40 commission, the Arizona department of environmental quality or a political
41 subdivision of this state to prevent, monitor, control or reduce land, water
42 or air pollution.

43 20. Machinery and equipment that are used in the commercial production
44 of livestock, livestock products or agricultural, horticultural, viticultural
45 or floricultural crops or products in this state and that are used directly

1 and primarily to prevent, monitor, control or reduce air, water or land
2 pollution.

3 21. Machinery or equipment that enables a television station to
4 originate and broadcast or to receive and broadcast digital television
5 signals and that was purchased to facilitate compliance with the
6 telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United States
7 Code section 336) and the federal communications commission order issued
8 April 21, 1997 (47 Code of Federal Regulations part 73). This paragraph does
9 not exempt any of the following:

10 (a) Repair or replacement parts purchased for the machinery or
11 equipment described in this paragraph.

12 (b) Machinery or equipment purchased to replace machinery or equipment
13 for which an exemption was previously claimed and taken under this paragraph.

14 (c) Any machinery or equipment purchased after the television station
15 has ceased analog broadcasting, or purchased after November 1, 2009,
16 whichever occurs first.

17 22. Qualifying equipment that is purchased from and after June 30, 2004
18 through June 30, 2014 by a qualified business under section 41-1516 for
19 harvesting or the initial processing of qualifying forest products removed
20 from qualifying projects as defined in section 41-1516. To qualify for this
21 exemption, the qualified business must obtain and present its certification
22 from the department of commerce at the time of purchase.

23 23. Machinery, equipment and other tangible personal property used
24 directly in motion picture production by a motion picture production company.
25 To qualify for this exemption, at the time of purchase, the motion picture
26 production company must present to the retailer its certificate that is
27 issued pursuant to section 42-5009, subsection H and that establishes its
28 qualification for the exemption.

29 C. The exemptions provided by subsection B of this section do not
30 include:

31 1. Expendable materials. For the purposes of this paragraph,
32 expendable materials do not include any of the categories of tangible
33 personal property specified in subsection B of this section regardless of the
34 cost or useful life of that property.

35 2. Janitorial equipment and hand tools.

36 3. Office equipment, furniture and supplies.

37 4. Tangible personal property used in selling or distributing
38 activities, other than the telecommunications transmissions described in
39 subsection B, paragraph 16 of this section.

40 5. Motor vehicles required to be licensed by this state, except buses
41 or other urban mass transit vehicles specifically exempted pursuant to
42 subsection B, paragraph 11 of this section, without regard to the use of such
43 motor vehicles.

44 6. Shops, buildings, docks, depots and all other materials of whatever
45 kind or character not specifically included as exempt.

1 7. Motors and pumps used in drip irrigation systems.

2 D. The following shall be deducted in computing the purchase price of
3 electricity by a retail electric customer from a utility business:

4 1. Revenues received from sales of ancillary services, electric
5 distribution services, electric generation services, electric transmission
6 services and other services related to providing electricity to a retail
7 electric customer who is located outside this state for use outside this
8 state if the electricity is delivered to a point of sale outside this state.

9 2. Revenues received from providing electricity, including ancillary
10 services, electric distribution services, electric generation services,
11 electric transmission services and other services related to providing
12 electricity with respect to which the transaction privilege tax imposed under
13 section 42-5063 has been paid.

14 E. The tax levied by this article does not apply to:

15 1. The storage, use or consumption in Arizona of machinery, equipment,
16 materials or other tangible personal property if used directly and
17 predominantly to construct a qualified environmental technology
18 manufacturing, producing or processing facility, as described in section
19 41-1514.02. This paragraph applies for ten full consecutive calendar or
20 fiscal years after the start of initial construction.

21 2. The purchase of electricity by a qualified environmental technology
22 manufacturer, producer or processor as defined in section 41-1514.02 that is
23 used directly in environmental technology manufacturing, producing or
24 processing. This paragraph shall apply for fifteen full consecutive calendar
25 or fiscal years from the date the first paper manufacturing machine is placed
26 in service. In the case of an environmental technology manufacturer,
27 producer or processor who does not manufacture paper, the time period shall
28 begin with the date the first manufacturing, processing or production
29 equipment is placed in service.

30 F. The following shall be deducted in computing the purchase price of
31 electricity by a retail electric customer from a utility business:

32 1. Fees charged by a municipally owned utility to persons constructing
33 residential, commercial or industrial developments or connecting residential,
34 commercial or industrial developments to a municipal utility system or
35 systems if the fees are segregated and used only for capital expansion,
36 system enlargement or debt service of the utility system or systems.

37 2. Reimbursement or contribution compensation to any person or persons
38 owning a utility system for property and equipment installed to provide
39 utility access to, on or across the land of an actual utility consumer if the
40 property and equipment become the property of the utility. This deduction
41 shall not exceed the value of such property and equipment.

42 G. For the purposes of subsection B of this section:

43 1. "Aircraft" includes:

1 (a) An airplane flight simulator that is approved by the federal
2 aviation administration for use as a phase II or higher flight simulator
3 under appendix H, 14 Code of Federal Regulations part 121.

4 (b) Tangible personal property that is permanently affixed or attached
5 as a component part of an aircraft that is owned or operated by a
6 certificated or licensed carrier of persons or property.

7 2. "Other accessories and related equipment" includes aircraft
8 accessories and equipment such as ground service equipment that physically
9 contact aircraft at some point during the overall carrier operation.

10 H. For the purposes of subsection D of this section, "ancillary
11 services", "electric distribution service", "electric generation service",
12 "electric transmission service" and "other services" have the same meanings
13 prescribed in section 42-5063.